

VILLAGE OF AHMEEK, MICHIGAN

FINANCIAL STATEMENTS

February 29, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

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| | | | |
|---|--------------------------------|--|---------------------------|
| Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other | | Local Government Name Village of Ahmeek | County Keweenaw |
| Audit Date 2/29/04 | Opinion Date 8/26/04 | Date Accountant Report Submitted to State: 9/15/04 | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☒ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

| | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | ✓ | | |
| Reports on individual federal financial assistance programs (program audits). | | | ✓ |
| Single Audit Reports (ASLGU). | ✓ | | |

| | | | |
|---|--|------------------------|------------------------|
| Certified Public Accountant (Firm Name) John I. Jukuri, CPA | | | |
| Street Address 56730 Calumet Avenue, Suite J | | City Calumet | State MI |
| Accountant Signature <i>John I. Jukuri CPA</i> | | ZIP 49913 | Date 9/15/04 |

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INDEPENDENT AUDITOR'S REPORT

Council Members
Village of Ahmeek, Michigan

I have audited the accompanying financial statements of the Village of Ahmeek, Michigan, as of and for the year ended February 29, 2004. These financial statements are the responsibility of the Village's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

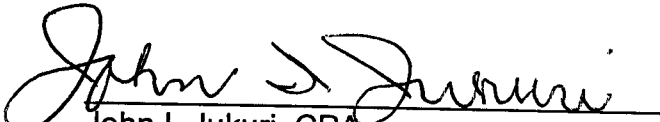
The financial statements referred to above do not include the Volunteer Firemen's Fund and the General Fixed Assets Account Group, which should be included to conform with generally accepted accounting principles. The amounts that should be recorded are not known.

As discussed in Note (1)D, the Village of Ahmeek, Michigan prepares its governmental fund type financial statements on the cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles.

In my opinion, except for the effects on the financial statements of the items described in the above paragraphs, the financial statements referred to above present fairly, in all material respects, the cash balances of the Village of Ahmeek, Michigan, as of February 29, 2004, and the revenues it received and expenditures it paid for the year then ended for its governmental fund types on the basis of accounting described in Note (1)D and the results of its operations and cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated August 26, 2004 on my consideration of Ahmeek Village's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

My audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as supplementary in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Village of Ahmeek, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.


John I. Jukuri, CPA

Calumet, Michigan
August 26, 2004

VILLAGE OF AHMEEK, MICHIGAN

EXHIBIT A

COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY -
ALL FUND TYPES

February 29, 2004

| | GOVERNMENTAL FUND TYPES | | PROPRIETARY FUND TYPE | TOTALS (MEMORANDUM ONLY) |
|---|----------------------------|----------------------------|--------------------------|--------------------------------|
| | <u>GENERAL</u> | <u>SPECIAL REVENUE</u> | <u>ENTERPRISE</u> | |
| <u>ASSETS</u> | | | | |
| Cash | \$ 26,807 | \$ 44,283 | \$ 63,100 | \$ 134,190 |
| Accounts receivable, net | | | 13,756 | 13,756 |
| Prepaid expense | | | 1,533 | 1,533 |
| Advances to other funds | | | 2,856 | 2,856 |
| Restricted assets - cash | | | 57,693 | 57,693 |
| Fixed assets, net | | | 2,153,680 | 2,153,680 |
| Deferred bond issue costs, net | | | 12,536 | 12,536 |
| | <u>\$ 26,807</u> | <u>\$ 44,283</u> | <u>\$ 2,305,154</u> | <u>\$ 2,376,244</u> |
| | ===== | ===== | ===== | ===== |
| <u>LIABILITIES & FUND EQUITY</u> | | | | |
| <u>LIABILITIES:</u> | | | | |
| Accounts payable | \$ | \$ | \$ 1,547 | \$ 1,547 |
| Accrued expenses | | | 640 | 640 |
| Payables from restricted assets: | | | | |
| Accrued interest | | | 4,061 | 4,061 |
| Current maturities of revenue bonds | | | 4,000 | 4,000 |
| Advances from other funds | | | 2,856 | 2,856 |
| Revenue bonds payable | | | 274,000 | 274,000 |
| | <u></u> | <u></u> | <u>287,104</u> | <u>287,104</u> |
| TOTAL LIABILITIES | <u></u> | <u></u> | <u>287,104</u> | <u>287,104</u> |
| <u>FUND EQUITY:</u> | | | | |
| Contributed capital | | | 1,870,253 | 1,870,253 |
| Retained earnings: | | | | |
| Reserved: | | | | |
| Revenue bond retirement | | | 33,547 | 33,547 |
| Repair, replace. & improve. | | | 3,580 | 3,580 |
| Equipment replacement | | | 12,504 | 12,504 |
| Unreserved | | | 98,166 | 98,166 |
| Fund balance: | | | | |
| Unreserved | <u>26,807</u> | <u>44,283</u> | <u></u> | <u>71,090</u> |
| TOTAL FUND EQUITY | <u>26,807</u> | <u>44,283</u> | <u>2,018,050</u> | <u>2,089,140</u> |
| TOTAL LIAB. & FUND EQUITY | <u>\$ 26,807</u> | <u>\$ 44,283</u> | <u>\$ 2,305,154</u> | <u>\$ 2,376,244</u> |
| | ===== | ===== | ===== | ===== |

The accompanying notes are an integral part of the financial statements.

VILLAGE OF AHMEEK, MICHIGAN

EXHIBIT B

COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCE - ALL GOVERNMENTAL FUND TYPES

Year ended February 29, 2004

| | <u>GENERAL</u> | <u>SPECIAL REVENUE</u> | <u>TOTALS (MEMORANDUM ONLY)</u> |
|--|--------------------|----------------------------|---|
| RECEIPTS | | | |
| Taxes | \$ 15,549 | \$ | \$ 15,549 |
| Licenses & permits | 71 | | 71 |
| State aid | 22,263 | 18,037 | 40,300 |
| Charges for services | 12,512 | | 12,512 |
| Interest & rents | 5,582 | 1,054 | 6,636 |
| Other | 266 | | 266 |
| TOTAL RECEIPTS | <u>56,243</u> | <u>19,091</u> | <u>75,334</u> |
| DISBURSEMENTS | | | |
| Legislative | 1,463 | | 1,463 |
| General government | 14,939 | 939 | 15,878 |
| Public safety | 1,828 | | 1,828 |
| Public works | 10,716 | 16,628 | 27,344 |
| Sanitation | 12,123 | | 12,123 |
| Parks & recreation | 2,002 | | 2,002 |
| Other | 12,862 | | 12,862 |
| Capital outlay | 881 | | 881 |
| TOTAL DISBURSEMENTS | <u>56,814</u> | <u>17,567</u> | <u>74,381</u> |
| Excess of receipts over (under) disbursements | (571) | 1,524 | 953 |
| Fund Balance February 28, 2003 | <u>27,378</u> | <u>42,759</u> | <u>70,137</u> |
| FUND BALANCE FEBRUARY 29, 2004 | \$ 26,807 ===== | \$ 44,283 ===== | \$ 71,090 ===== |

The accompanying notes are an integral part of the financial statements.

VILLAGE OF AHMEEK, MICHIGAN

EXHIBIT C

COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS & CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS

Year ended February 29, 2004

| | GENERAL FUND | | | ANNUALLY BUDGETED SPECIAL REVENUE FUNDS | | |
|-----------------------------|--------------|-----------|--|--|--------|--|
| | Budget | Actual | Variance Favorable (Unfavorable) | Budget | Actual | Variance Favorable (Unfavorable) |
| RECEIPTS | | | | | | |
| TAXES | | | | | | |
| Current & delinquent | \$ 16,067 | \$ 15,255 | \$ (812) | \$ | \$ | \$ |
| Administrative fees & other | 294 | 294 | | | | |
| TOTAL TAXES | 16,361 | 15,549 | (812) | | | |
| LICENSES & PERMITS | | 71 | 71 | | | |
| STATE AID | | | | | | |
| Shared revenues | 19,950 | 19,305 | (645) | | | |
| State grant | 189 | 2,958 | 2,769 | | | |
| Motor vehicle | | | | 18,035 | 18,037 | 2 |
| TOTAL STATE AID | 20,139 | 22,263 | 2,124 | 18,035 | 18,037 | 2 |
| CHARGES FOR SERVICES | | | | | | |
| Sanitation | 8,145 | 9,711 | 1,566 | | | |
| Other | 5,458 | 2,801 | (2,657) | | | |
| TOTAL CHARGES FOR SERVICES | 13,603 | 12,512 | (1,091) | | | |
| INTEREST & RENTS | | | | | | |
| Interest income | 380 | 462 | 82 | 1,055 | 1,054 | (1) |
| Rents | 5,400 | 5,120 | (280) | | | |
| TOTAL INTEREST & RENTS | 5,780 | 5,582 | (198) | 1,055 | 1,054 | (1) |
| OTHER | | | | | | |
| Miscellaneous | 260 | 266 | 6 | | | |
| TOTAL RECEIPTS | 56,143 | 56,243 | 100 | 19,090 | 19,091 | 1 |
| DISBURSEMENTS | | | | | | |
| LEGISLATIVE | | | | | | |
| Village council | 1,463 | 1,463 | | | | |
| GENERAL GOVERNMENT | | | | | | |
| Clerk | 3,617 | 3,666 | (49) | | | |
| Treasurer | 3,297 | 3,297 | | | | |
| Village hall | 7,898 | 7,909 | (11) | | | |
| Elections | 59 | 67 | (8) | | | |
| Administration | | | | 760 | 939 | (179) |
| TOTAL GENERAL GOVERNMENT | 14,871 | 14,939 | (68) | 760 | 939 | (179) |

VILLAGE OF AHMEEK, MICHIGAN

EXHIBIT C (CONT.)

COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS & CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS

Year ended February 29, 2004

| | GENERAL FUND | | | ANNUALLY BUDGETED SPECIAL REVENUE FUNDS | | |
|--|------------------|------------------|--|--|------------------|--|
| | Budget | Actual | Variance Favorable (Unfavorable) | Budget | Actual | Variance Favorable (Unfavorable) |
| PUBLIC SAFETY | | | | | | |
| Fire department | <u>1,828</u> | <u>1,828</u> | | | | |
| PUBLIC WORKS | | | | | | |
| Streets & roads | 4,292 | 6,992 | (2,700) | 16,248 | 16,628 | (380) |
| Equipment maintenance | <u>3,724</u> | <u>3,724</u> | | | | |
| TOTAL PUBLIC WORKS | <u>8,016</u> | <u>10,716</u> | <u>(2,700)</u> | <u>16,248</u> | <u>16,628</u> | <u>(380)</u> |
| SANITATION | <u>12,137</u> | <u>12,123</u> | <u>14</u> | | | |
| PARKS & RECREATION | <u>2,002</u> | <u>2,002</u> | | | | |
| OTHER | | | | | | |
| Insurance | 6,305 | 6,305 | | | | |
| Miscellaneous | <u>8,637</u> | <u>6,557</u> | <u>2,080</u> | | | |
| TOTAL OTHER | <u>14,942</u> | <u>12,862</u> | <u>2,080</u> | | | |
| CAPITAL OUTLAY | | | | | | |
| Village hall | 400 | 400 | | | | |
| Fire department | <u>481</u> | <u>481</u> | | | | |
| TOTAL CAPITAL OUTLAY | <u>881</u> | <u>881</u> | | | | |
| TOTAL DISBURSEMENTS | <u>56,140</u> | <u>56,814</u> | <u>(674)</u> | <u>17,008</u> | <u>17,567</u> | <u>(559)</u> |
| Excess of receipts over (under) disbursements | 3 | (571) | (574) | 2,082 | 1,524 | (558) |
| Fund Balance 2-28-03 | <u>27,378</u> | <u>27,378</u> | | <u>42,759</u> | <u>42,759</u> | |
| FUND BALANCE 2-29-04 | <u>\$ 27,381</u> | <u>\$ 26,807</u> | <u>\$ (574)</u> | <u>\$ 44,841</u> | <u>\$ 44,283</u> | <u>\$ (558)</u> |

The accompanying notes are an integral part of the financial statements.

VILLAGE OF AHMEEK, MICHIGAN

EXHIBIT D

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN RETAINED EARNINGS - ENTERPRISE FUNDS

Year ended February 29, 2004

| | |
|---|-----------|
| OPERATING REVENUE: | |
| Charges for services | \$ 67,128 |
| OPERATING EXPENSES: | |
| Cost of water | 12,106 |
| Administration | 7,940 |
| Wages & payroll taxes | 4,629 |
| Supplies & maintenance | 3,546 |
| Utilities | 2,452 |
| Insurance | 3,182 |
| Testing | 1,662 |
| Equipment rental | 1,800 |
| Miscellaneous | 1,325 |
| Depreciation & amortization | 61,830 |
| Total operating expenses | 100,472 |
| OPERATING INCOME (LOSS) | (33,344) |
| NONOPERATING REVENUE (EXPENSE): | |
| Interest income | 2,629 |
| Interest expense | (13,538) |
| TOTAL NONOPERATING REVENUE (EXPENSE) | (10,909) |
| NET INCOME (LOSS) | (44,253) |
| Add back depreciation on assets acquired with contributed capital | 52,163 |
| Increase in reserve accounts | (3,314) |
| INCREASE (DECREASE) IN RETAINED EARNINGS - UNRESERVED | 4,596 |
| Retained Earnings - Unreserved, February 28, 2003 | 93,569 |
| RETAINED EARNINGS - UNRESERVED, FEBRUARY 29, 2004 | \$ 98,165 |

The accompanying notes are an integral part of the financial statements.

VILLAGE OF AHMEEK, MICHIGAN

EXHIBIT E

COMBINED STATEMENT OF CASH FLOWS -
ENTERPRISE FUNDS

Year ended February 29, 2004

| | |
|--|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Operating income (loss) | \$ (33,344) |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | |
| Depreciation & amortization | 61,830 |
| Changes in operating assets and liabilities: | |
| (Increase) decrease in: | |
| Accounts receivable | (2,270) |
| Prepaid expense | (263) |
| Increase (decrease) in: | |
| Accounts payable | (8) |
| Accrued expenses | (44) |
| Interest payable | (35) |
| Due to other funds | (592) |
| Net cash provided by operating activities | <u>25,274</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | |
| Acquisition of fixed assets | (2,538) |
| Principal paid on revenue bonds | (4,000) |
| Interest paid on revenue bonds | <u>(13,538)</u> |
| Net cash used by capital and related financing activities | <u>(20,076)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Interest income | <u>2,629</u> |
| INCREASE (DECREASE) IN CASH AND RESTRICTED CASH | 7,827 |
| Cash and Restricted Cash, February 28, 2003 | <u>112,966</u> |
| CASH AND RESTRICTED CASH, FEBRUARY 29, 2004 | \$ 120,793 ===== |

The accompanying notes are an integral part of the financial statements.

VILLAGE OF AHMEEK, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

February 29, 2004

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Village Operations

The Village was organized on April 9, 1909 and covers approximately 60 acres. The Village operates under an elected board consisting of seven members which include a president and six trustees. In addition the clerk, treasurer and assessor are elected. All of these elected positions are held for a period of two years. The Village provides services to its residents which includes fire protection, water supply, sewage disposal, recreation, and community enrichment.

B. Reporting Entity

In accordance with generally accepted accounting principles (GAAP) and Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity", these financial statements present the Village (the primary government) and its component units, when applicable. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. The Village of Ahmeek has no component units which need to be presented.

An association which meets certain criterion for including its financial activity in the Village's financial statements is the Volunteer Firemen's Fund. Since the Volunteer Firemen's Fund is not a separate legal entity and money raised thereof is done in the name of the Village, the financial activity of the Fund should be a part of the Village's reporting entity. This financial activity is not available for audit and therefore is not included in this financial report.

C. Basis of Presentation

The accounts of the Village are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The financial activities of the Village are recorded in separate funds and account groups, categorized as follows:

GOVERNMENTAL FUNDS

General Fund - This fund is used to account for all financial resources except those provided for in another fund. Revenues are primarily derived from property taxes, State aid and charges for services. The fund includes the general operating disbursements of the Village.

Special Revenue Funds - These funds are used to account for specific revenue sources (other than expendable trusts or major capital projects) generally derived from State and Federal grants, General Fund appropriations and charges for services, which are to be expended for specific purposes as dictated by legal, regulatory and administrative requirements. This fund type includes the Major Street and Local Street Funds.

PROPRIETARY FUNDS

Enterprise Funds - These funds account for operations: (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. This fund type includes the Water and Sewer Funds.

ACCOUNT GROUPS

General Fixed Assets Account Group - The Village has not established this account group. This account group should present the fixed assets of the Village utilized in its general operations other than those accounted for in proprietary funds. It does not include assets known collectively as infrastructure - roads, drainage systems, fire hydrant systems and similar assets, as the Village has adopted the policy of not capitalizing infrastructure general fixed assets. Acquisition costs of these assets are included as disbursements in the year of purchase.

D. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures (expenses) are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Governmental Funds

The Governmental Fund Types (General and Special Revenue Funds) use a financial resources measurement focus and should be accounted for using the modified accrual basis of accounting. Under modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Current expenditures are generally recorded when the fund liability is incurred, if measurable. However, the Village has recorded these funds on a cash basis of accounting which is not in accordance with GAAP. Under the cash basis of accounting, revenues are recorded when received and expenditures are recorded when paid.

Proprietary Funds

The Proprietary Fund Types (Enterprise Funds) are accounted for on a cost-of-service or "capital maintenance" measurement focus, using the accrual basis of accounting. Their revenues are recognized when they are earned and expenses recognized when they are incurred. The Village applies all GASB pronouncements as well as the FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

E. Budgets

Budgetary Information

The Village presently follows a budget system which adopts the provisions of Michigan Public Act 621 - Uniform Budgeting and Accounting Act. Annual budgets are adopted by the Council for the General and Special Revenue Funds. Budgets were adopted on the accounting basis of each particular fund. Budgeted receipts and disbursements, as presented in Exhibit C, include authorized amendments to the original budgets as adopted. Budgets are adopted at the activity level. Appropriations lapse at year end.

F. Cash and Cash Equivalents

Cash consists of various checking and interest bearing bank accounts and when applicable, cash equivalents. The Village's cash equivalents are considered to be short-term investments with maturity dates of three months or less from the date acquired. The Village had no cash equivalents at February 29, 2004. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents.

G. Receivables and Payables

During the course of operations, transactions occur between individual funds. These receivables and payables are classified as "due from other funds" or "due to other funds" on the statement of assets, liabilities and fund equity.

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

Receivables are shown net of an allowance for uncollectibles, where applicable.

H. Restricted Assets

Certain resources set aside for enterprise fund revenue bonds repayment and equipment replacement are classified as restricted assets on the statement of assets, liabilities and fund equity because their use is limited by the applicable bond covenant. The "revenue bond retirement account" is used to segregate resources to meet current debt service payments and to make up potential future deficiencies in the current debt service account. The "repair, replacement and improvement" and "equipment replacement" accounts are used to report resources set aside to meet unexpected contingencies or to fund asset replacements.

I. Fixed Assets

Fixed assets are stated at historical cost or estimated historical cost if historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Improvements to fixed assets that add to the value of the asset or materially extend the asset's life are capitalized at cost. Interest costs incurred during the construction of proprietary fund assets are capitalized.

Public domain "infrastructure" general fixed assets (i.e. roads, streets, sidewalks and other assets that are immovable and of value only to the Village) are not recorded. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not included in the general fixed assets account group or capitalized in the proprietary funds.

Assets capitalized in the Water Fund reflect only purchases made since February, 1991. Previous years' acquisitions were expensed when incurred and their costs are unavailable.

Fixed assets, other than land, are depreciated in the proprietary funds over the estimated useful life of the asset using the straight-line method. Depreciation expense on assets acquired with contributed capital funds is closed to contributed capital accounts rather than retained earnings. The estimated useful lives over which fixed assets are being depreciated are as follows:

| | |
|-------------------------|---------------|
| Land Improvements | 20 years |
| Water and Sewage System | 40 - 50 years |
| Equipment | 15 years |

J. Long-Term Debt

Governmental fund type long-term debt obligations expected to be financed from expendable available financial resources are reported as a liability of a governmental fund. The remaining portion of such obligations are reported in the general long-term debt account group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds. For governmental fund types, long-term debt proceeds are reported as other financing sources in the statement of receipts, disbursements and changes in fund balances.

K. Fund Equity

Contributed capital is recorded in the proprietary funds when they receive capital grants and contributions from developers, customers or other funds.

Retained earnings and reserved fund balances are established to identify third-party claims against resources of the Village that have not materialized as liabilities at the balance sheet date and the existence of assets that, because of their non-monetary nature or lack of liquidity represent financial resources not available for current appropriation or expenditure.

L. Property Taxes

Property taxes are levied on July 1 and are payable by September 14 of each year, at which time unpaid balances become delinquent. The Village bills and collects its own property taxes. Unpaid delinquent real property tax amounts are collected by the County. Unpaid personal property taxes are collected by the Village. The 2003 taxable value of the Village amounted to \$1,104,403 on which taxes were levied for Village purposes at 14.2693 mills for \$15,759.

M. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

N. Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. All risk of loss is covered by commercial insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past 3 years.

O. Total Columns on Combined Statements

The total column on the combined statements is captioned "Memorandum Only" to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position, results of operations or cash flows in conformity with GAAP. Neither is such data comparable to a consolidation because interfund eliminations have not been made in the aggregation of this data.

(2) CASH AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Village to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Village deposits are in accordance with statutory authority.

Deposits are in one financial institution in the name of the Village. Deposits are carried at cost.

The Governmental Accounting Standards Board (GASB) Statement No. 3 risk disclosure for deposits at year end are as follows:

| <u>Deposits</u> | <u>Bank Balances</u> <u>Primary Government</u> |
|-----------------|---|
| Insured (FDIC) | \$ 112,507 |
| Uninsured | <u>79,036</u> |
| Total Deposits | \$ 191,543 ===== |

At year end, the balance sheet carrying amount of cash and restricted cash was \$191,883.

(3) INTERFUND ADVANCES

The amounts of advances to/from other funds are as follows:

| <u>Fund</u> | <u>Advance</u> <u>Receivable</u> | <u>Fund</u> | <u>Advance</u> <u>Payable</u> |
|---------------------|-------------------------------------|-------------|----------------------------------|
| Primary Government: | | | |
| Sewer | \$ 2,856 ===== | Water | \$ 2,856 ===== |

(4) RESTRICTED ASSETS AND RESERVED RETAINED EARNINGS

The amount of restricted assets and retained earnings reserved for sewer equipment and sewer system revenue bonds is as follows:

| | <u>Revenue Bond Retirement</u> <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Subtotal</u> | <u>Repair, Replacement & Improvement</u> <u>Water Fund</u> | <u>Equipment Replacement</u> <u>Sewer Fund</u> | <u>Total</u> |
|---------------------|---|-------------------|-----------------|---|---|----------------|
| Restricted Assets: | | | | | | |
| Cash | \$ 10,966 | \$ 30,642 | \$ 41,608 | \$ 3,580 | \$ 12,504 | \$ 57,692 |
| Less payables from | | | | | | |
| Restricted Assets: | | | | | | |
| Accrued interest | (1,118) | (2,942) | (4,060) | | | (4,060) |
| Current maturity of | | | | | | |
| revenue bonds | <u>(1,000)</u> | <u>(3,000)</u> | <u>(4,000)</u> | | | <u>(4,000)</u> |
| Restricted Retained | | | | | | |
| Earnings | \$ 8,848 | \$ 24,700 | \$ 33,548 | \$ 3,580 | \$ 12,504 | \$ 49,632 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

The ordinance authorizing the Sewer System and Water revenue bonds requires that the Village establish a sinking fund (Revenue Bond and Interest Redemption Fund and a Bond Reserve Fund) for the payment of principal and interest on the revenue bonds. At February 29, 2004 the sinking fund balances are sufficient to satisfy such bond ordinance requirements.

(5) FIXED ASSETS

A summary of proprietary fund type fixed assets at February 29, 2004 are as follows:

| | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Totals</u> |
|-----------------------------|-------------------|-------------------|------------------|
| Land | \$ 5,900 | \$ 40,974 | \$ 46,874 |
| Land improvements | | 8,750 | 8,750 |
| Wastewater treatment system | 853,008 | 1,708,945 | 2,561,953 |
| Equipment | <u>2,856</u> | <u>122,665</u> | <u>125,521</u> |
| | 861,764 | 1,881,334 | 2,743,098 |
| Accumulated depreciation | <u>(123,756)</u> | <u>(465,662)</u> | <u>(589,418)</u> |
| | \$ 738,008 | \$ 1,415,672 | \$ 2,153,680 |
| | ===== | ===== | ===== |

(6) LONG-TERM DEBT

The following is a summary of long-term debt outstanding of the Village as of February 29, 2004:

| | <u>Balance</u> <u>2-28-03</u> | <u>Additions</u> <u>(Reductions)</u> | <u>Balance</u> <u>2-29-04</u> |
|---|----------------------------------|---|----------------------------------|
| Enterprise Fund: | | | |
| Revenue Bonds- | | | |
| \$205,000 Sewage Disposal System Bonds acquired by the U.S. Dept. of Agriculture-Rural Economic and Community Development/Farm Services Agency due in annual principal installment ranging from \$1,000 to \$12,000 through Nov. 1, 2031; interest rate is 5.0% | \$ 181,000 | \$ (3,000) | \$ 178,000 |
| \$102,000 Water Supply System Revenue Bonds acquired by the U.S. Dept. of Agriculture-Rural Economic and Community Development/Farm Services Agency due in annual principal installment ranging from \$1,000 to \$5,000 through June 1, 2041; interest rate is 4.5% | <u>101,000</u> | <u>(1,000)</u> | <u>100,000</u> |
| | \$ 282,000 ===== | \$ (4,000) ===== | \$ 278,000 ===== |

The annual principal and interest requirements through maturity for all debts outstanding as of February 29, 2004 are as follows:

| <u>Calendar year</u> | <u>Total</u> | <u>Principal</u> | <u>Interest</u> |
|----------------------|---------------------|---------------------|---------------------|
| 2004 | \$ 16,420 | \$ 4,000 | \$ 12,420 |
| 2005 | 16,240 | 4,000 | 12,240 |
| 2006 | 16,060 | 4,000 | 12,060 |
| 2007 | 16,857 | 5,000 | 11,857 |
| 2008 | 16,632 | 5,000 | 11,632 |
| 2009-2013 | 83,608 | 29,000 | 54,608 |
| 2014-2018 | 84,935 | 38,000 | 46,935 |
| 2019-2023 | 83,620 | 46,000 | 37,620 |
| 2024-2028 | 89,245 | 64,000 | 25,245 |
| 2029-2033 | 53,655 | 42,000 | 11,655 |
| 2034-2038 | 27,985 | 22,000 | 5,985 |
| 2039-2041 | <u>16,013</u> | <u>15,000</u> | <u>1,013</u> |
| | \$ 521,270 ===== | \$ 278,000 ===== | \$ 243,270 ===== |

(7) CONTRIBUTED CAPITAL

During the year, contributed capital increased (decreased) by the following amounts:

| | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Totals</u> |
|-------------------------------------|---------------------|-----------------------|-----------------------|
| Contributed capital, 2/28/03 | \$ 666,831 | \$ 1,255,585 | \$ 1,922,416 |
| Depreciation on contributed capital | <u>(19,087)</u> | <u>(33,076)</u> | <u>(52,163)</u> |
| CONTRIBUTED CAPITAL, 2/29/04 | \$ 647,744 ===== | \$ 1,222,509 ===== | \$ 1,870,253 ===== |

(8) RETIREMENT

The Village does not have a retirement plan for its employees or elected officials.

(9) COMMITMENTS AND CONTINGENCIES

Grants

The Village receives Federal and State Grants for specific purposes that are subject to review and audit by Federal and State agencies. Such audits could result in a request for reimbursement by the Federal and State agencies for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of Village management, such disallowances, if any, will not be significant to the Village's financial statements.

(10) SEGMENT INFORMATION - ENTERPRISE FUNDS

The Village maintains two separate enterprise funds which provide water and sewer services respectively. Selected segment information for the year ended February 29, 2004, is as follows:

| | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Totals</u> |
|----------------------------------|-------------------|-------------------|---------------|
| Operating revenues | \$ 28,371 | \$ 38,757 | \$ 67,128 |
| Depreciation and amortization | 21,687 | 40,143 | 61,830 |
| Operating income (loss) | (12,771) | (20,573) | (33,344) |
| Nonoperating revenues (expenses) | (3,970) | (6,939) | (10,909) |
| Net income (loss) | (16,741) | (27,512) | (44,253) |
| Contributed capital | | | |
| Reductions | (19,087) | (33,076) | (52,163) |
| Net working capital | 18,512 | 57,690 | 76,202 |
| Total assets | 778,985 | 1,526,169 | 2,305,154 |
| Bonds payable | 100,000 | 178,000 | 278,000 |
| Total equity | | | |
| Contributed capital | 647,744 | 1,222,509 | 1,870,253 |
| Retained earnings | 25,798 | 121,998 | 147,796 |

VILLAGE OF AHMEEK, MICHIGAN

COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCE -
ALL SPECIAL REVENUE FUNDS

February 29, 2004

| | <u>Major Street</u> | <u>Local Street</u> | <u>Total</u> |
|-------------------------------------|-------------------------|-------------------------|--------------------|
| <u>ASSETS</u> | | | |
| Cash | \$ 31,508 ===== | \$ 12,775 ===== | \$ 44,283 ===== |
| <u>LIABILITIES AND FUND BALANCE</u> | | | |
| LIABILITIES | \$ | \$ | \$ |
| FUND BALANCE | <u>31,508</u> | <u>12,775</u> | <u>44,283</u> |
| TOTAL LIABILITIES AND FUND BALANCE | \$ 31,508 ===== | \$ 12,775 ===== | \$ 44,283 ===== |

VILLAGE OF AHMEEK, MICHIGAN

COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE - ALL SPECIAL REVENUE FUNDS

Year ended February 29, 2004

| | <u>Major Street</u> | <u>Local Street</u> | <u>Total</u> |
|---------------------------------------|---------------------------|---------------------------|---------------------------|
| RECEIPTS | | | |
| State aid | \$ 13,361 | \$ 4,676 | \$ 18,037 |
| Interest | <u>758</u> | <u>296</u> | <u>1,054</u> |
| TOTAL RECEIPTS | <u>14,119</u> | <u>4,972</u> | <u>19,091</u> |
| DISBURSEMENTS | | | |
| General government | 799 | 140 | 939 |
| Streets and roads | <u>11,863</u> | <u>4,765</u> | <u>16,628</u> |
| TOTAL DISBURSEMENTS | <u>12,662</u> | <u>4,905</u> | <u>17,567</u> |
| Excess of receipts over disbursements | 1,457 | 67 | 1,524 |
| Fund Balance 2-28-03 | <u>30,051</u> | <u>12,708</u> | <u>42,759</u> |
| FUND BALANCE 2-29-04 | <u>\$ 31,508</u> ===== | <u>\$ 12,775</u> ===== | <u>\$ 44,283</u> ===== |

VILLAGE OF AHMEEK, MICHIGAN

COMBINING BALANCE SHEET - ENTERPRISE FUNDS

February 29, 2004

| | <u>WATER</u> | <u>SEWER</u> | <u>TOTAL</u> |
|---|----------------------------|------------------------------|------------------------------|
| <u>ASSETS</u> | | | |
| Current assets: | | | |
| Cash | \$ 13,991 | \$ 49,109 | \$ 63,100 |
| Accounts receivable, net | 5,989 | 7,768 | 13,757 |
| Prepaid expense | <u>1,532</u> | <u>1,532</u> | <u>1,532</u> |
| Total current assets | 19,980 | 58,409 | 78,389 |
| Advances to other funds | | 2,856 | 2,856 |
| Restricted assets - cash | 14,547 | 43,146 | 57,693 |
| Fixed assets, net | 738,008 | 1,415,673 | 2,153,681 |
| Deferred bond issue costs, net | <u>6,450</u> | <u>6,085</u> | <u>12,535</u> |
| TOTAL ASSETS | \$ 778,985 ===== | \$ 1,526,169 ===== | \$ 2,305,154 ===== |
| <u>LIABILITIES AND FUND EQUITY</u> | | | |
| <u>LIABILITIES</u> | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 1,141 | \$ 406 | \$ 1,547 |
| Accrued expenses | <u>326</u> | <u>314</u> | <u>640</u> |
| Total current liabilities | 1,467 | 720 | 2,187 |
| Payables from restricted assets: | | | |
| Accrued interest | 1,119 | 2,942 | 4,061 |
| Current maturities of revenue bonds | 1,000 | 3,000 | 4,000 |
| Advances from other funds | 2,856 | | 2,856 |
| Revenue bonds payable | <u>99,000</u> | <u>175,000</u> | <u>274,000</u> |
| TOTAL LIABILITIES | <u>105,442</u> | <u>181,662</u> | <u>287,004</u> |
| <u>FUND EQUITY</u> | | | |
| Contributed capital | 647,744 | 1,222,509 | 1,870,253 |
| Retained earnings: | | | |
| Reserved: | | | |
| Revenue bond retirement | 8,848 | 24,700 | 33,548 |
| Repair, replacement & improvement | 3,580 | | 3,580 |
| Equipment replacement | | 12,504 | 12,504 |
| Unreserved | <u>13,371</u> | <u>84,794</u> | <u>98,165</u> |
| TOTAL FUND EQUITY | <u>673,543</u> | <u>1,344,507</u> | <u>2,018,050</u> |
| TOTAL LIABILITIES AND FUND EQUITY | \$ 778,985 ===== | \$ 1,526,169 ===== | \$ 2,305,154 ===== |

VILLAGE OF AHMEEK, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS - ENTERPRISE FUNDS

February 29, 2004

| | <u>WATER</u> | <u>SEWER</u> | <u>TOTAL</u> |
|--|--------------------|--------------------|--------------------|
| OPERATING REVENUE: | | | |
| Charges for services | \$ 28,371 | \$ 38,757 | \$ 67,128 |
| OPERATING EXPENSES: | | | |
| Cost of water | 12,106 | | 12,106 |
| Administration | 2,840 | 5,100 | 7,940 |
| Wages & payroll taxes | 1,817 | 2,812 | 4,629 |
| Supplies & maintenance | 107 | 3,439 | 3,546 |
| Utilities | 540 | 1,912 | 2,452 |
| Insurance | 849 | 2,333 | 3,182 |
| Testing | 613 | 1,049 | 1,662 |
| Equipment rental | | 1,800 | 1,800 |
| Miscellaneous | 583 | 742 | 1,325 |
| Depreciation & amortization | <u>21,687</u> | <u>40,143</u> | <u>61,830</u> |
| Total operating expenses | <u>41,142</u> | <u>59,330</u> | <u>100,472</u> |
| OPERATING INCOME (LOSS) | <u>(12,771)</u> | <u>(20,573)</u> | <u>(33,344)</u> |
| NONOPERATING REVENUE (EXPENSE): | | | |
| Interest income | 551 | 2,078 | 2,629 |
| Interest expense | <u>(4,521)</u> | <u>(9,017)</u> | <u>(13,538)</u> |
| TOTAL NONOPERATING REVENUE (EXPENSE) | <u>(3,970)</u> | <u>(6,939)</u> | <u>(10,909)</u> |
| NET INCOME (LOSS) | (16,741) | (27,512) | (44,253) |
| Add back depreciation on assets acquired with contributed capital | 19,087 | 33,076 | 52,163 |
| Increase in reserve accounts | <u>(2,292)</u> | <u>(1,022)</u> | <u>(3,314)</u> |
| INCREASE (DECREASE) IN RETAINED EARNINGS - UNRESERVED | 54 | 4,542 | 4,596 |
| Retained Earnings - Unreserved, 2-28-03 | <u>13,317</u> | <u>80,252</u> | <u>93,569</u> |
| RETAINED EARNINGS - UNRESERVED 2-29-04 | \$ 13,371 ===== | \$ 84,794 ===== | \$ 98,165 ===== |

VILLAGE OF AHMEEK, MICHIGAN

**COMBINING STATEMENT OF CASH FLOWS -
ENTERPRISE FUNDS**

Year ended February 29, 2004

| | <u>WATER</u> | <u>SEWER</u> | <u>TOTAL</u> |
|---|--------------------|--------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Operating income (loss) | \$ (12,771) | \$ (20,573) | \$ (33,344) |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | | |
| Depreciation & amortization | 21,687 | 40,143 | 61,830 |
| Changes in operating assets and liabilities: | | | |
| (Increase) decrease in: | | | |
| Accounts receivable | (1,067) | (1,203) | (2,270) |
| Prepaid expense | | (263) | (263) |
| Increase (decrease) in: | | | |
| Accounts payable | (176) | 168 | (8) |
| Accrued expenses | (29) | (15) | (44) |
| Interest payable | (2) | (33) | (35) |
| Due to other funds | <u>(500)</u> | <u>(92)</u> | <u>(592)</u> |
| Net cash provided by operating activities | <u>7,142</u> | <u>18,132</u> | <u>25,274</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | |
| Acquisition of fixed assets | | (2,538) | (2,538) |
| Principal paid on revenue bonds | (1,000) | (3,000) | (4,000) |
| Interest paid on revenue bonds | <u>(4,521)</u> | <u>(9,017)</u> | <u>(13,538)</u> |
| Net cash used by capital and related financing activities | <u>(5,521)</u> | <u>(14,555)</u> | <u>(20,076)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Interest income | <u>551</u> | <u>2,078</u> | <u>2,629</u> |
| INCREASE (DECREASE) IN CASH AND RESTRICTED CASH | 2,172 | 5,655 | 7,827 |
| Cash and Restricted Cash, 2-28-03 | <u>26,366</u> | <u>86,600</u> | <u>112,966</u> |
| CASH AND RESTRICTED CASH, 2-29-04 | \$ 28,538 ===== | \$ 92,255 ===== | \$ 120,793 ===== |

VILLAGE OF AHMEEK, MICHIGAN

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Council Members
Village of Ahmeek, Michigan

I have audited the financial statements of the Village of Ahmeek, Michigan as of and for the year ended February 29, 2004, and have issued my report thereon dated August 26, 2004. In my report, my opinion was qualified because the financial statements do not include the Volunteer Firemen's Fund or the General Fixed Assets Account Group, and the Village's governmental fund type financial statements are prepared on a comprehensive basis of accounting other than generally accepted accounting principles. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village of Ahmeek, Michigan's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of noncompliance that I have reported to the management of the Village of Ahmeek, Michigan in a separate letter dated August 26, 2004.

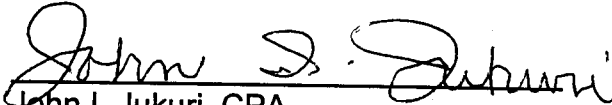
Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Village of Ahmeek, Michigan's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted a certain matter involving the internal control over financial reporting and its operation that I consider to be a reportable condition, which is described below. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Village of Ahmeek, Michigan's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical

assets and the related accounting records, or to all phases of a transaction. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that the reportable condition described above is not a material weakness. I also noted other matters involving the internal control over financial reporting, that I have reported to the management of the Village of Ahmeek, Michigan in a separate letter dated August 26, 2004.

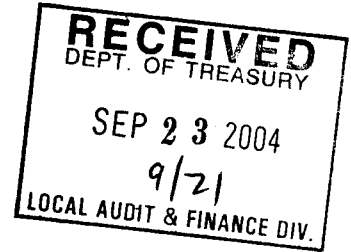
This report is intended solely for the information and use of the council membership, management, and applicable federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties.


John I. Jukuri, CPA

Calumet, Michigan
August 26, 2004

JOHN I. JUKURI
CERTIFIED PUBLIC ACCOUNTANT
56730 Calumet Avenue, Suite J
Calumet, Michigan 49913
Tel. (906) 337-0662 Fax (906) 337-2587

September 15, 2004



Council Members
Village of Ahmeek, Michigan

In planning and performing my audit of the financial statements of the Village of Ahmeek, Michigan, for the year ended February 29, 2004, I considered its internal control in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide my assurance on the internal control. In addition to the item mentioned in my report on compliance and internal controls which is a part of the financial report for the year ended February 29, 2004, I noted certain matters involving the internal control structure and its operation and other items that came to my attention in the normal conduct of my audit that are presented to assist in improving accounting procedures and controls.

Internal Controls

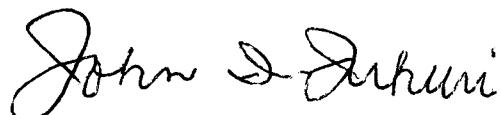
1. The size of the Village administrative staff precludes certain internal controls that would be preferred if it were large enough to provide optimum segregation of duties. This dictates that the Village Council remain involved in the financial affairs of the Village to provide oversight and independent review functions.

Other

2. The Village operates a volunteer fire department in which certain receipts and disbursements are not being fully accounted for. Because the volunteer fire department is not a separate legal entity and its fund raising is done in the name of the Village and the fact that all expenditures are not being fully accounted for, I recommend that all financial activity and cash transactions of the fire department be under the control of the Village Treasurer and reported in the Village's financial statements.
3. The Village does not maintain a general fixed asset account group for its non-proprietary fund types. I recommend that it be established in order to comply with generally accepted accounting principles. The Village may experience difficulty in acquiring certain cost information when establishing initial property records, however, GASB Codification Section 1400.112 permits the use of estimated costs.
4. The financial statements of the Village's governmental fund types are being prepared on a cash receipts and disbursements basis. I recommend that these fund type statements be prepared on a modified accrual basis, in accordance with generally accepted accounting principles.

This report is intended for the information and use of the Council membership and applicable Federal and State agencies. I shall be pleased to discuss any of the comments with you at your convenience.

Sincerely,

A handwritten signature in black ink, reading "John I. Jukuri". The signature is written in a cursive style with a large, stylized "J" at the beginning.

John I. Jukuri, CPA